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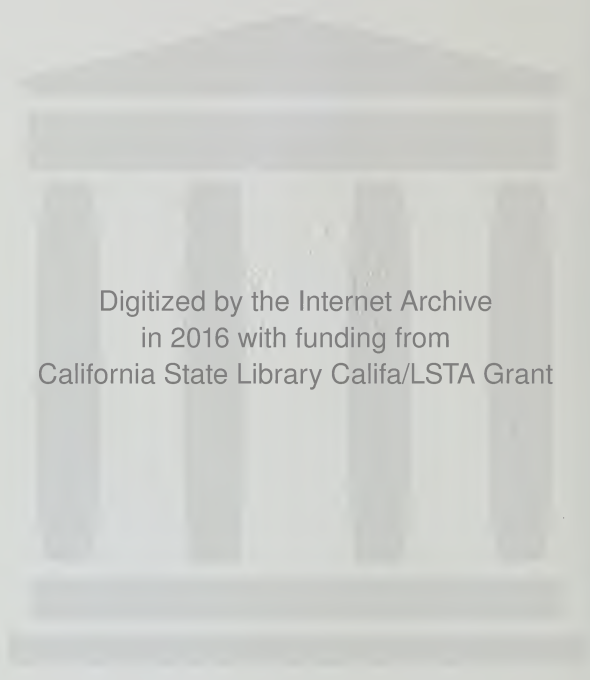
City and County
of
San Francisco
San Francisco, California



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ANNUAL
FINANCIAL REPORT

JUNE 30, 1981



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CITY AND COUNTY OF SAN FRANCISCO

Combined Financial Statements
June 30, 1981

CITY AND COUNTY OF SAN FRANCISCO

Combined Financial Statements Year ended June 30, 1981

TABLE OF CONTENTS

Transmittal Letter
Accountants' Report

EXHIBIT

Combined Financial Statements:

Combined Balance Sheet – All Fund Types and Account Groups	1
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds	2
Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balances – Budget and Actual – General and Special Revenue Fund Types – Budget Basis	3
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balance – All Proprietary Fund Types and Similar Trust Funds	4
Combined Statement of Changes in Financial Position – All Proprietary Fund Types and Similar Trust Funds	5

PAGES

Notes to Financial Statements:

(1) Definition of Reporting Entity	7
(2) Summary of Significant Accounting Policies	7
(3) Property Taxes	11
(4) Budgetary Process Reconciled to Generally Accepted Accounting Principles	12
(5) Fixed Assets	13
(6) Long-Term Debt	14
(7) Employees' Retirement System	16
(8) Segment Information for Public Service Enterprises	16
(9) Commitments and Contingent Liabilities	19
(10) Restatement of Fund Equity and Account Balances	19
(11) Subsequent Event – Airport Funds Available to General Fund	21





The Honorable Mayor and
The Honorable Board of Supervisors
City and County of San Francisco

February 17, 1982

Ladies and Gentlemen:

It is my pleasure to present the Combined Financial Statements for the City and County of San Francisco for the year ended June 30, 1981, together with our auditor's report. These combined statements include the activities of the City and County of San Francisco for which the Mayor and Board of Supervisors have direct or indirect governing and budgetary responsibilities.

I am particularly pleased that our Combined Financial Statements are being presented in a timely manner and with an unqualified auditor's report. Two years ago the auditor's report for the Office of the Controller contained three qualifications which also would have appeared in the Combined Financial Statements had they been prepared:

- Comparison of budget and actual financial data was not presented for the General and Special Revenue Funds.
- The accounts of the Hospital were included in the General Fund rather than as a separate enterprise fund.
- The General Fixed Asset Account Group was not auditable.

In addition to the unqualified opinion by our external auditors, the Combined Financial Statements reflect our continued fiscal stability and reiterate the ability of San Francisco to meet the tough and demanding challenges facing the City and County. Recent restoration of the City's "AA" rating by Standard and Poors on our general obligation bonds further documents the stability and solvency of San Francisco.

Significant attention has been placed on the accounting and reporting functions and the financial condition of major cities in recent years. Creditors and the investment community, in addition to citizens and employees, have been particularly interested in our financial condition, revenues and expenditures, and results of operations reported in accordance with generally accepted accounting principles. Timely preparation of these financial statements constitutes another significant step in San Francisco's on-going efforts to modernize and improve our financial management and financial reporting practices.

I am confident that these financial statements adequately document the fiscal stability and solvency of San Francisco and provide a cogent overview of the strong fiscal condition of the City and County. Our project to enhance and modernize financial reporting capabilities and financial reporting practices has and continues to receive enthusiastic support and cooperation from City policy makers, community groups and the financial community.

I trust these financial statements will provide you with concise and meaningful data relative to the financial status of the activities of the City and County of San Francisco.

Very truly yours,

A handwritten signature in dark ink, appearing to read "John C. Farrell".
John C. Farrell
Controller



Peat, Marwick, Mitchell & Co.

MORRIS · DAVIS & COMPANY

STEVEN YU & CO

Certified Public Accountants

The Honorable Mayor and Board of Supervisors
City and County of San Francisco, California

We have examined the combined financial statements of the City and County of San Francisco, defined in note 1 to the financial statements, as of and for the year ended June 30, 1981, as listed in the accompanying table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the San Francisco International Airport, the Port of San Francisco, the Water Department and Hetch Hetchy Project and the Municipal Railway, which are included as Public Service Enterprise Funds as more fully described in note 8. These financial statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to such entities included in the Public Service Enterprise Funds, is based solely upon the reports of the other auditors.

As described in note 10, various changes in the application of accounting principles and restatements of beginning fund balances have been made to the combined financial statements. Because it was not practicable to determine the specific preceding years to which these adjustments relate, the retroactive effect on specific prior years' financial statements is not known.

In our opinion, based upon our examination and the reports of other auditors, the aforementioned combined financial statements present fairly the financial position of the City and County of San Francisco at June 30, 1981 and the results of its operations and changes in the financial position of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

*Peat, Marwick, Mitchell & Co.
Morris, Davis & Company
Steven Yu & Co.*

San Francisco
January 28, 1982

CITY AND COUNTY OF SAN FRANCISCO

Exhibit I

Combined Balance Sheet — All Fund Types and Account Groups

June 30, 1981

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Debt Service	Public			General Fixed Assets	General Long-Term Debt	Total
					Enterprise (note 8)	Internal Service				
Assets										
Cash and investments	\$ 160,488	37,470	27,874	1,991	153,525	4,773	108,785	-	-	494,906
Investments with trustee	-	-	-	-	-	-	1,202,861	-	-	1,202,861
Receivables (net of allowance for uncollectible amounts of \$18,774):										
Property taxes and penalties	5,843	148	-	668	-	-	-	-	-	6,659
Other local taxes	33,312	-	-	-	-	-	-	-	-	33,312
Federal and state grants and subventions	40,314	36,760	3,111	-	25,402	-	-	-	-	105,587
Charges for services	9,328	7,088	-	-	50,178	-	-	-	-	66,594
Interest and other	4,936	818	-	-	7,685	15	35,842	-	-	49,296
Interfund receivables	2,902	34	6	-	7,615	11,473	-	-	-	22,030
Due from School and College Districts	-	-	-	-	-	1,835	-	-	-	1,835
Inventories	955	-	-	-	10,851	138	-	-	-	11,944
Restricted assets:										
Cash and investments	-	-	-	-	213,037	-	-	-	-	213,037
Investments with trustee	-	-	-	-	81,543	-	-	-	-	81,543
Grants and other receivables	-	-	-	-	59,895	-	-	-	-	59,895
Fixed assets (net of accumulated depreciation in proprietary fund types) — (note 5)	-	-	-	-	1,658,770	2,461	-	483,207	-	2,144,438
Deferred charges and other assets	-	-	-	-	2,720	2,256	287	-	-	5,263
Amounts available in Debt Service Fund	-	-	-	-	-	-	-	-	1,695	1,695
Amounts to be provided for long-term obligations	-	-	-	-	-	-	-	-	235,462	235,462
Total assets	\$ 258,078	82,318	30,991	2,659	2,271,221	22,951	1,347,775	483,207	237,157	4,736,357

See accompanying notes to financial statements.

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Debt Service	Public Service Enterprise (note 8)	Internal Service		Trust and Agency		
								Assets	Long-Term Debt	Total
Liabilities										
Accounts payable	\$ 5,320	8,240	2,895	-	33,700	4,140	11,026	-	-	65,321
Accrued payroll	13,361	626	-	-	10,178	2,643	-	-	-	26,808
Accrued workers' compensation	-	-	-	-	-	13,704	-	-	-	13,704
Estimated claims payable (notes 6 and 9)	2,500	-	-	-	9,722	-	-	-	36,446	48,668
Deferred or disputed tax, grant and subvention revenues	39,711	16,144	51	760	-	-	1,390	-	-	58,056
Interfund payables	5,822	1,050	419	-	6,734	3,720	4,285	-	-	22,030
Agency obligations:										
School and College Districts	-	-	-	-	-	-	40,222	-	-	40,222
Other	-	-	-	-	-	-	27,482	-	-	27,482
Other liabilities	2,467	421	-	204	26,741	950	16,445	-	772	48,000
Bonds payable (note 6)	-	-	-	-	637,381	-	-	-	108,720	746,101
Capital lease obligations (note 6)	-	-	-	-	-	-	-	-	91,219	91,219
Liabilities payable from restricted assets	-	-	-	-	32,266	-	-	-	-	32,266
Total liabilities	69,181	26,481	3,365	964	756,722	25,157	100,850	-	237,157	1,219,877
Fund Equity										
Contributed capital	-	-	-	-	816,882	2,409	-	-	483,207	819,291
Investment in general fixed assets	-	-	-	-	-	-	-	-	-	483,207
Retained earnings:										
Reserved	-	-	-	-	194,623	706	-	-	-	195,329
Unreserved (deficit)	-	-	-	-	502,994	(5,321)	-	-	-	497,673
Fund balances:										
Reserved for employees' retirement system	-	-	-	-	-	-	1,243,738	-	-	1,243,738
Reserved for encumbrances	10,513	4,690	6,346	-	-	-	142	-	-	21,691
Reserved for inventory and other assets not available for appropriation	-	-	-	-	-	-	-	-	-	-
Reserved by charter for cash requirements	1,205	45	-	-	-	-	470	-	-	1,720
Reserved for debt service	21,236	-	-	-	-	-	-	-	-	21,236
Reserved for appropriation	-	-	-	1,695	-	-	-	-	-	1,695
Reserved for carryforward	17,656	29,938	15,439	-	-	-	1,448	-	-	64,481
Reserved for emergencies and for charter provisions	15,500	1,907	-	-	-	-	-	-	-	17,407
Unreserved:										
Designated for claims	25,163	1,353	-	-	-	-	-	-	-	26,516
Designated for other purposes	2,360	17,904	5,841	-	-	-	1,127	-	-	27,232
Undesignated	95,264	-	-	-	-	-	-	-	-	95,264
Total fund equity	188,897	55,837	27,626	1,695	1,514,499	(2,206)	1,246,925	-	483,207	3,516,480
Commitments and contingent liabilities (notes 8 and 9)										
Total liabilities and fund equity	\$ 2,558,078	82,318	30,991	2,659	2,271,221	22,951	1,347,775	483,207	237,157	4,736,357

See accompanying notes to financial statements

CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances —
All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 1981

(In Thousands)

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Total
	General	Special Revenue	Capital Projects	Debt Service		
Revenues:						
Property taxes	\$157,027	4,400	—	24,988	—	186,415
Other local taxes	155,488	29,157	—	—	—	184,645
Grants and subventions	237,942	90,837	2,959	1,007	16	332,761
Licenses, fines and penalties	25,091	3,781	—	—	—	28,872
Interest and investment earnings	29,306	3,886	30	—	443	33,665
Charges for services	40,296	17,934	30	—	292	58,552
Other	398	987	2	—	1,153	2,540
Total revenues	<u>645,548</u>	<u>150,982</u>	<u>3,021</u>	<u>25,995</u>	<u>1,904</u>	<u>827,450</u>
Expenditures:						
Public protection	228,932	6,290	—	—	121	235,343
Public works, transportation and commerce	13,090	20,665	—	—	5	33,760
Human welfare and neighborhood development	135,090	61,667	—	—	16	196,773
Community health	74,630	6,235	—	—	11	80,876
Culture and recreation	35,937	6,439	—	—	840	43,216
General administration and finance	42,739	6,240	—	—	2	48,981
Capital outlay	—	—	41,303	—	—	41,303
Debt service:						
Principal retirement	319	—	—	10,680	—	10,999
Interest and fiscal charges	779	—	—	5,721	—	6,500
Total expenditures	<u>531,516</u>	<u>107,536</u>	<u>41,303</u>	<u>16,401</u>	<u>995</u>	<u>697,751</u>
Excess (deficiency) of revenues over (under) expenditures	<u>114,032</u>	<u>43,446</u>	<u>(38,282)</u>	<u>9,594</u>	<u>909</u>	<u>129,699</u>
Other financing sources (uses):						
Operating transfers in	34,063	1,780	37,283	1,773	—	74,899
Operating transfers out	(83,124)	(43,837)	(362)	(11,300)	(801)	(139,424)
	<u>(49,061)</u>	<u>(42,057)</u>	<u>36,921</u>	<u>(9,527)</u>	<u>(801)</u>	<u>(64,525)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	64,971	1,389	(1,361)	67	108	65,174
Fund balances at beginning of year as restated (note 10)	126,894	54,275	28,994	2,850	3,089	216,102
Residual equity transfers from (to) other funds	1,496	147	—	(1,222)	—	421
Net change in reserves for assets not available for expenditure	95	26	—	—	—	121
Hospital reorganization (note 8)	(4,559)	—	(7)	—	(10)	(4,576)
Fund balances at end of year	<u>\$188,897</u>	<u>55,837</u>	<u>27,626</u>	<u>1,695</u>	<u>3,187</u>	<u>277,242</u>

See accompanying notes to financial statements.

CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Revenues, Expenditures,
Encumbrances and Changes in Fund Balances — Budget and Actual —
General and Special Revenue Fund Types — Budget Basis (Note 4)

Year ended June 30, 1981
(In Thousands)

	General Fund				Special Revenue Funds			
	Original Budget (a)	Revised Budget (b)	Actual	Variance — Favorable (Unfavorable)	Original Budget (a)	Revised Budget (b)	Actual	Variance — Favorable (Unfavorable)
Revenues:								
Property taxes	\$155,877	157,517	157,027	(490)	4,436	4,480	4,400	(80)
Other local taxes	134,685	168,593	155,488	(13,105)	26,910	28,380	29,163	783
Grants and subventions	238,600	243,922	237,942	(5,980)	9,585	9,597	7,452	(2,145)
Licenses, fines and penalties	28,424	29,209	25,091	(4,118)	5,465	5,444	3,781	(1,663)
Interest and investment earnings	1,160	1,234	29,306	28,072	1,850	2,399	3,786	1,387
Charges for services	31,966	34,088	40,296	6,208	11,951	12,503	12,186	(317)
Other	192	195	398	203	352	352	146	(206)
Total revenues	<u>590,904</u>	<u>634,758</u>	<u>645,548</u>	<u>10,790</u>	<u>60,549</u>	<u>63,155</u>	<u>60,914</u>	<u>(2,241)</u>
Expenditures and encumbrances:								
Public protection	237,091	236,295	229,726	6,569	3	50	47	3
Public works, transportation and commerce	12,984	13,760	13,031	729	27,903	19,231	14,941	4,290
Human welfare and neighborhood development	142,301	145,022	134,788	10,234	2,413	2,633	2,569	64
Community health	83,511	83,482	76,247	7,235	—	—	—	—
Culture and recreation	35,843	36,914	36,033	881	9,706	7,623	5,730	1,893
General administration and finance	49,311	49,021	43,346	5,675	3,105	4,679	4,760	(81)
Expenditures in excess of encumbrances	—	—	655	(655)	—	—	121	(121)
Total expenditures and encumbrances	<u>561,041</u>	<u>564,494</u>	<u>533,826</u>	<u>30,668</u>	<u>43,130</u>	<u>34,216</u>	<u>28,168</u>	<u>6,048</u>
Excess of revenues over expenditures and encumbrances	<u>29,863</u>	<u>70,264</u>	<u>111,722</u>	<u>41,458</u>	<u>17,419</u>	<u>28,939</u>	<u>32,746</u>	<u>3,807</u>
Other financing sources (uses):								
Operating transfers in	21,650	35,618	34,063	(1,555)	845	845	845	—
Operating transfers out	(65,761)	(81,935)	(83,124)	(1,189)	(44,389)	(37,854)	(35,423)	2,431
	<u>(44,111)</u>	<u>(46,317)</u>	<u>(49,061)</u>	<u>(2,744)</u>	<u>(43,544)</u>	<u>(37,009)</u>	<u>(34,578)</u>	<u>2,431</u>
Excess (deficiency) of revenues and other sources over (under) expenditures, encumbrances and other uses	(14,248)	23,947	62,661	38,714	(26,125)	(8,070)	(1,832)	6,238
Fund balances at beginning of year as restated	116,752	116,752	116,752	—	46,055	46,055	46,055	—
Residual equity transfers from other funds	2,000	2,420	3,495	1,075	—	—	147	147
Hospital reorganization (note 8)	—	—	(3,010)	(3,010)	—	—	—	—
Fund balances at end of year	<u>\$104,504</u>	<u>143,119</u>	<u>179,898</u>	<u>36,779</u>	<u>19,930</u>	<u>37,985</u>	<u>44,370</u>	<u>6,385</u>
(a) Includes beginning appropriation carryforwards.								
(b) Excludes ending appropriation carryforwards.								

See accompanying notes to financial statements.

CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Revenues, Expenses and Changes
in Retained Earnings/Fund Balance —

All Proprietary Fund Types and Similar Trust Funds

Year ended June 30, 1981

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Public Service Enterprise (note 8)	Internal Service	Pension Trust	Total
Operating revenues:				
Charges for services	\$301,436	79,275	—	380,711
Rent and concessions	41,139	—	—	41,139
Contributions	—	—	153,181	153,181
Income from investments	—	—	94,763	94,763
Other	12,014	117	—	12,131
	<u>354,589</u>	<u>79,392</u>	<u>247,944</u>	<u>681,925</u>
Other expenses:				
Personal services	213,072	27,169	—	240,241
Contractual services	28,580	18,759	—	47,339
Light, heat and power	29,615	15,376	—	44,991
Materials and supplies	30,893	4,830	—	35,723
Depreciation	36,847	872	—	37,719
General and administrative	—	2,394	—	2,394
Services provided by other departments	13,882	11,348	—	25,230
Benefit payments	—	—	104,053	104,053
Refunds	—	—	4,810	4,810
Other	12,247	6,521	419	19,187
	<u>365,136</u>	<u>87,269</u>	<u>109,282</u>	<u>561,687</u>
Operating income (loss)	<u>(10,547)</u>	<u>(7,877)</u>	<u>138,662</u>	<u>120,238</u>
Non-operating revenues (expenses):				
Operating contributions:				
Federal	12,300	—	—	12,300
State	9,900	—	—	9,900
Other	12,898	—	—	12,898
Interest, net	19,593	—	—	19,593
Other, net	729	—	—	729
	<u>55,420</u>	<u>—</u>	<u>—</u>	<u>55,420</u>
Income (loss) before operating transfers	<u>44,873</u>	<u>(7,877)</u>	<u>138,662</u>	<u>175,658</u>
Other financing sources (uses):				
Operating transfers in	80,591	6,134	—	86,725
Operating transfers out	(22,200)	—	—	(22,200)
	<u>58,391</u>	<u>6,134</u>	<u>—</u>	<u>64,525</u>
Net income (loss)	<u>103,264</u>	<u>(1,743)</u>	<u>138,662</u>	<u>240,183</u>
Depreciation on fixed assets that reduces contributed capital	—	872	—	872
Retained earnings (deficit)/fund balance at beginning of year, as restated (note 10)	594,353	(3,323)	1,105,076	1,696,106
Residual equity transfer to General Fund	—	(421)	—	(421)
Retained earnings (deficit)/fund balance at end of year	<u>\$697,617</u>	<u>(4,615)</u>	<u>1,243,738</u>	<u>1,936,740</u>

See accompanying notes to financial statements.

CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Changes in Financial Position —
All Proprietary Fund Types and Similar Trust Funds

Year ended June 30, 1981

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Public Service Enterprise (note 8)	Internal Service	Pension Trust	Total
Sources of working capital:				
Operations:				
Net income (loss)	\$103,264	(1,743)	138,662	240,183
Items not requiring (providing) working capital:				
Depreciation	36,847	872	—	37,719
Equity earnings and other	(3,319)	(358)	(9,195)	(12,872)
Working capital provided (used) by operations	<u>136,792</u>	<u>(1,229)</u>	<u>129,467</u>	<u>265,030</u>
Transfer of net assets to General Hospital				
Medical Center (note 8)	51,964	—	—	51,964
Capital grants and other	91,999	—	—	91,999
Proceeds from long-term financing	47,723	—	—	47,723
Sale of investments	—	—	638,940	638,940
Other	7,374	—	3,998	11,372
Total sources (uses)	<u>335,852</u>	<u>(1,229)</u>	<u>772,405</u>	<u>1,107,028</u>
Uses of working capital:				
Fixed assets contributed to General Hospital				
Medical Center	47,388	—	—	47,388
Net increase in restricted assets	10,737	—	—	10,737
Acquisition of fixed assets, net	169,731	52	—	169,783
Retirement of general obligation bonds	23,754	—	—	23,754
Retirement of revenue bonds	5,083	—	—	5,083
Net decrease in other liabilities payable from restricted assets	2,494	—	—	2,494
Purchase of investments	—	—	771,418	771,418
Other	5,361	421	—	5,782
Total uses	<u>264,548</u>	<u>473</u>	<u>771,418</u>	<u>1,036,439</u>
Net increase (decrease) in working capital	<u>71,304</u>	<u>(1,702)</u>	<u>987</u>	<u>70,589</u>
Elements of increase (decrease) in working capital:				
Cash and investments	95,796	(2,532)	3,596	96,860
Receivables, net	47,029	1,846	9,851	58,726
Interfund receivables	(55,328)	2,089	—	(53,239)
Inventories	6,428	17	—	6,445
Other assets	(50)	597	—	547
Accounts payable	(22,015)	(516)	(12,460)	(34,991)
Accrued payroll	(1,090)	(1,220)	—	(2,310)
Interfund payables	1,005	(2,355)	—	(1,350)
Other liabilities	(471)	372	—	(99)
Net increase (decrease) in working capital	<u>\$ 71,304</u>	<u>(1,702)</u>	<u>987</u>	<u>70,589</u>

See accompanying notes to financial statements.

CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Revenues, Expenses and Changes
in Retained Earnings/Fund Balance —
All Proprietary Fund Types and Similar Trust Funds

Year ended June 30, 1981

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Public Service Enterprise (note 8)	Internal Service	Pension Trust	Total
Operating revenues:				
Charges for services	\$301,436	79,275	—	380,711
Rent and concessions	41,139	—	—	41,139
Contributions	—	—	153,181	153,181
Income from investments	—	—	94,763	94,763
Other	12,014	117	—	12,131
	<u>354,589</u>	<u>79,392</u>	<u>247,944</u>	<u>681,925</u>
Other expenses:				
Personal services	213,072	27,169	—	240,241
Contractual services	28,580	18,759	—	47,339
Light, heat and power	29,615	15,376	—	44,991
Materials and supplies	30,893	4,830	—	35,723
Depreciation	36,847	872	—	37,719
General and administrative	—	2,394	—	2,394
Services provided by other departments	13,882	11,348	—	25,230
Benefit payments	—	—	104,053	104,053
Refunds	—	—	4,810	4,810
Other	12,247	6,521	419	19,187
	<u>365,136</u>	<u>87,269</u>	<u>109,282</u>	<u>561,687</u>
Operating income (loss)	<u>(10,547)</u>	<u>(7,877)</u>	<u>138,662</u>	<u>120,238</u>
Non-operating revenues (expenses):				
Operating contributions:				
Federal	12,300	—	—	12,300
State	9,900	—	—	9,900
Other	12,898	—	—	12,898
Interest, net	19,593	—	—	19,593
Other, net	729	—	—	729
	<u>55,420</u>	<u>—</u>	<u>—</u>	<u>55,420</u>
Income (loss) before operating transfers	<u>44,873</u>	<u>(7,877)</u>	<u>138,662</u>	<u>175,658</u>
Other financing sources (uses):				
Operating transfers in	80,591	6,134	—	86,725
Operating transfers out	(22,200)	—	—	(22,200)
	<u>58,391</u>	<u>6,134</u>	<u>—</u>	<u>64,525</u>
Net income (loss)	<u>103,264</u>	<u>(1,743)</u>	<u>138,662</u>	<u>240,183</u>
Depreciation on fixed assets that reduces contributed capital	—	872	—	872
Retained earnings (deficit)/fund balance at beginning of year, as restated (note 10)	594,353	(3,323)	1,105,076	1,696,106
Residual equity transfer to General Fund	—	(421)	—	(421)
Retained earnings (deficit)/fund balance at end of year	<u>\$697,617</u>	<u>(4,615)</u>	<u>1,243,738</u>	<u>1,936,740</u>

See accompanying notes to financial statements.

CITY AND COUNTY OF SAN FRANCISCO

Combined Statement of Changes in Financial Position —
All Proprietary Fund Types and Similar Trust FundsYear ended June 30, 1981
(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Public Service Enterprise (note 8)	Internal Service	Pension Trust	Total
Sources of working capital:				
Operations:				
Net income (loss)	\$103,264	(1,743)	138,662	240,183
Items not requiring (providing) working capital:				
Depreciation	36,847	872	—	37,719
Equity earnings and other	(3,319)	(358)	(9,195)	(12,872)
Working capital provided (used) by operations	<u>136,792</u>	<u>(1,229)</u>	<u>129,467</u>	<u>265,030</u>
Transfer of net assets to General Hospital				
Medical Center (note 8)	51,964	—	—	51,964
Capital grants and other	91,999	—	—	91,999
Proceeds from long-term financing	47,723	—	—	47,723
Sale of investments	—	—	638,940	638,940
Other	7,374	—	3,998	11,372
Total sources (uses)	<u>335,852</u>	<u>(1,229)</u>	<u>772,405</u>	<u>1,107,028</u>
Uses of working capital:				
Fixed assets contributed to General Hospital				
Medical Center	47,388	—	—	47,388
Net increase in restricted assets	10,737	—	—	10,737
Acquisition of fixed assets, net	169,731	52	—	169,783
Retirement of general obligation bonds	23,754	—	—	23,754
Retirement of revenue bonds	5,083	—	—	5,083
Net decrease in other liabilities				
payable from restricted assets	2,494	—	—	2,494
Purchase of investments	—	—	771,418	771,418
Other	5,361	421	—	5,782
Total uses	<u>264,548</u>	<u>473</u>	<u>771,418</u>	<u>1,036,439</u>
Net increase (decrease) in working capital	<u>71,304</u>	<u>(1,702)</u>	<u>987</u>	<u>70,589</u>
Elements of increase (decrease) in working capital:				
Cash and investments	95,796	(2,532)	3,596	96,860
Receivables, net	47,029	1,846	9,851	58,726
Interfund receivables	(55,328)	2,089	—	(53,239)
Inventories	6,428	17	—	6,445
Other assets	(50)	597	—	547
Accounts payable	(22,015)	(516)	(12,460)	(34,991)
Accrued payroll	(1,090)	(1,220)	—	(2,310)
Interfund payables	1,005	(2,355)	—	(1,350)
Other liabilities	(471)	372	—	(99)
Net increase (decrease) in working capital	<u>\$ 71,304</u>	<u>(1,702)</u>	<u>987</u>	<u>70,589</u>

See accompanying notes to financial statements.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Combined Financial Statements

June 30, 1981

(1) Definition of Reporting Entity

San Francisco is a city and county chartered by the State of California, and as such can exercise the powers of both a city and county under State law.

The combined financial statements present financial information on activities of the City and County of San Francisco for which the Mayor and Board of Supervisors have direct or indirect governing and budgetary responsibilities, and include the operations of: the Office of the Controller; the Public Service Enterprise operations of the San Francisco International Airport, the San Francisco General Hospital Medical Center, the Port of San Francisco, the Clean Water Program, the Water Department and Hetch Hetchy Project, and the Municipal Railway and Municipal Railway Improvement Corporation; the operations of 10 non-profit corporations associated with the City and County; and the operations of the Employees' Retirement System. San Francisco Stadium, Inc., San Francisco Social Services Corporation, and City of San Francisco Civic Plaza Parking Corporation are included with the governmental fund types and account groups. Six other parking corporations and the City of San Francisco Market Corporation are included with the Public Service Enterprise Funds.

The operations of the San Francisco Redevelopment Agency, the San Francisco Housing Authority, the San Francisco Unified School District, the San Francisco Community College District, the Health Service System, the Bay Area Rapid Transit District (BART), and the Bay Area Air Quality Management District are not part of the defined reporting entity and therefore are not included in the combined financial statements of the City and County, except for certain cash held in an agency capacity.

(2) Summary of Significant Accounting Policies

The more significant accounting policies of the City and County are described in the following sections.

(a) Basis of Presentation — Fund Accounting

The accounts of the City and County are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. The various funds are summarized by type in the financial statements. Fund types and account groups used by the City and County are described below.

GOVERNMENTAL FUND TYPES

General Fund — The General Fund is the general operating fund of the City and County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds — Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

Capital Projects Funds — Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed in the proprietary fund types).

Debt Service Fund — The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

PROPRIETARY FUND TYPES

Public Service Enterprise Funds — Public Service Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds — Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and County or other governmental units on a billable basis (primarily centralized data processing, vehicle maintenance, light, heat and power and self-insurance).

FIDUCIARY FUND TYPES

Trust and Agency Funds — Trust and Agency Funds are used to account for assets held by the City and County in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, pension trust and agency funds. Operations of pension trust funds are accounted for and reported in the proprietary fund type. Operations of expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

ACCOUNT GROUPS

General Fixed Assets Account Group — This group of accounts is established to account for all fixed assets of the City and County, other than those accounted for in the proprietary fund types.

General Long-Term Debt Account Group — This group of accounts is established to account for all long-term debt, including capital leases and claim liabilities, of the City and County except that accounted for in the proprietary fund types.

(b) Basis of Accounting

The modified accrual basis of accounting is followed in the governmental fund types and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt and vacation and sick pay which are recorded when paid, are recorded when the liability is incurred.

Intergovernmental revenues, which are received as reimbursement for specific purposes or projects, are recognized based upon the expenditures recorded. Intergovernmental revenues which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

The City and County collects an annual taxpayer-assessed business tax based on gross receipts or payroll, as appropriate. The City and County bills taxpayers each June for one-half the previous year's reported taxes, payable July 31. The City and County accrues as revenues the amount of the billing expected to be collected within 60 days of the end of its fiscal year, which is a significant portion of the amount billed.

Licenses, fines and penalties and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Investment earnings are accrued since they are measurable and available.

See note 3 for the City and County's property tax accrual policy.

The accrual basis of accounting is utilized in the proprietary fund types and pension trust fund.

(c) Budgetary Data

The budget of the City and County is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget includes estimates of 1) the programs, projects, services, and activities to be carried on during the fiscal year, 2) the revenue available to finance the operating plan, and 3) the spending requirements of the operating plan. The budget represents a process through which policy decisions are made, put into effect, and controlled.

The following procedures establish the budgetary data reflected in the financial statements:

- (1) Public hearings are conducted by the Mayor's Office to gain public comment on the proposed annual budget.
- (2) Prior to June 1, the Mayor submits the proposed budget to the Board of Supervisors. An interim budget is adopted by the Board of Supervisors.
- (3) Public hearings are conducted by the Board of Supervisors to gain public comment on the preliminary budget.
- (4) Prior to September 15, the annual budget is finalized through passage of the annual appropriation ordinance, which is the legal authority for enactment of the budget.
- (5) Certain annual appropriations are budgeted on a project or program basis. If a project is not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year. In certain circumstances programs and regular annual appropriations may be carried forward after approval by the Controller, Office of the Mayor and Board of Supervisors.
- (6) Federal and State grant funds are budgeted by the Mayor and Board of Supervisors on a grant basis over the term of the grant, and accordingly are not included in the annual appropriation ordinance. Budgetary amounts and expenditures for grants, which are recorded in the Special Revenue Funds, are not included in the budgetary financial statement (Exhibit 3) because they are not budgeted on an annual basis.
- (7) Appropriations may be adjusted during the year with the approval of the Mayor and Board of Supervisors. Additionally, the Controller is authorized to make limited transfers of appropriations within a department. The City Charter prohibits expending funds for which there is no legal appropriation.

(d) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types and expendable trust funds as a significant aspect of budgetary control. Encumbrances are reported as reservations of fund balances because they do not constitute expenditures or liabilities. Encumbrances are combined with expenditures for budgetary comparison purposes (note 4).

(e) Cash and Investments

The City and County follows the practice of pooling cash and investments of all funds with the City Treasurer except for restricted funds held by outside custodians on behalf of Public Service Enterprise Funds, investments of the Employees' Retirement System held by its trustee, and small imprest funds. Cash amounts are reported net of warrants outstanding. Transfers between funds relating to activity of fiscal year 1981, which were recorded subsequent to June 30, 1981, have been reported in "Cash and investments". The earned interest yield on all funds with the City Treasurer for fiscal year 1981 was 12.95%.

The Treasurer holds cash of the School District and Community College District as part of the City and County's pooled cash funds. The cash held for these districts is included in agency funds.

Investments are stated at cost or amortized cost, which approximates market, except for the investment in bonds of the Employees' Retirement System which have a market value approximately 30% (\$226,259,000) below amortized cost.

For fiscal year 1981, the method of allocating interest earned on investments among governmental fund types was changed. Unless otherwise restricted, all interest earned on investments is now credited to the General Fund.

As of June 30, 1981, the City and County began accruing interest earned on investments in the governmental fund types. The accrual increased interest earned on investments by approximately \$4,829,000 in the General Fund and \$778,000 in the Special Revenue Funds.

(f) Inventory

Inventory is generally valued at average cost. Inventory in the General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. A reserve equal to the amount of inventory indicates that a portion of the fund balance is not available for future appropriation.

(g) Internal Service Fund Transactions

Interdepartmental work orders are billed when the service is completed, and unbilled costs are recognized as unbilled receivables at the end of the fiscal year.

(h) General Fixed Assets

General fixed assets are those acquired for general governmental purposes. Such assets purchased or constructed are recorded as expenditures in the governmental fund types and capitalized at cost or estimated cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded at estimated fair market value at the time received.

Certain fixed assets, including roads, curbs and gutters, streets and sidewalks, and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City and County.

No depreciation is provided on general fixed assets.

(i) Fixed Assets — Proprietary Fund Types

Fixed assets owned by the proprietary fund types are stated at cost or estimated cost. Depreciation has been provided over estimated useful lives using the straight-line method. Depreciation related to fixed assets contributed to Internal Service Funds is closed to the contributed capital account on an annual basis.

Interest expense on bond funds used for construction is capitalized during the construction period on certain projects of the San Francisco International Airport, Water Department and Hetch Hetchy Project, Municipal Railway, the Port of San Francisco and the Clean Water Program. Interest capitalized during the 1981 fiscal year amounted to approximately \$10,030,000.

(j) Capital Leases

Two long-term leases have been capitalized in accordance with generally accepted accounting principles. Both of these leases provide that the City and County shall pay a specified annual rent which approximates the debt service requirements of the entity which sold revenue bonds to construct the improvement subject to lease. Upon payment of all debt the improvements become the property of the City and County of San Francisco. The related fixed assets are reported in the General Fixed Assets Account Group.

(k) Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to six weeks, is payable upon termination and is accumulated on a calendar year basis.

In the governmental fund types, in which vacation pay is charged to expenditures when paid, unpaid vacation pay was estimated to be approximately \$14,300,000 at December 30, 1980. Vacation pay is accrued as earned in the Public Service Enterprise Funds.

Sick leave earned subsequent to December 6, 1978 is non-vesting. Prior to that date, sick leave became vested and could be accumulated up to six months. Remaining amounts of such vested sick leave are payable upon termination of employment by retirement, industrial disability or death. The City and County determines the amount of vested sick leave on an individual employee basis as terminations occur; the total amount of vested sick leave has not been determined.

(l) Reclassifications

The City and County has reclassified certain accounts in its financial statements, from the prior year, to better describe its operations. Revenues and fund balances related to the Welfare Assistance and Administration, Traffic Fine, and Federal Revenue Sharing Funds, included in the Special Revenue Funds in the prior year, have been included in the General Fund at June 30, 1981.

(m) Total Columns on Combined Statements

Total columns on the combined statements are presented to aggregate financial data. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(3) Property Taxes

The City and County of San Francisco is responsible for assessing, collecting and distributing property taxes in accordance with enabling State legislation. The secured property tax is levied as of July 1 on all taxable real property located in the City and County, and is due and payable within that fiscal year. Property taxes levied are recorded as revenue and receivables, net of estimated uncollectibles, in the fiscal year of levy. Property taxes which cannot be recorded as current year revenues in accordance with the modified accrual basis of accounting have been recorded as deferred property tax revenues.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a flat 4% rate applied to the 1975-76 assessed value of the property (25% of full value) or on 1% of the sales price of the property on sales transactions and construction which occurs after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and construction) can rise at a maximum of 2% per year.

The Proposition 13 limitation on real property taxes described above does not apply to taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). These taxes and related subventions amounted to approximately \$25,995,000 for the year ended June 30, 1981, including interest and redemption charges for general obligation bonds of the Water Department and Hetch Hetchy Project. \$11,300,000 was transferred from the Debt Service Fund to the Water Department/Hetch Hetchy Project for the current year's debt service. Additionally, a like amount was transferred from the Water Department/Hetch Hetchy Project to the General Fund, as authorized by the voters in 1979.

Net assessed valuation for the year ended June 30, 1981 was approximately \$4.42 billion, an increase of 7.8% over the previous year. The tax rate was \$4.92 per \$100 of assessed valuation, the maximum permitted under Proposition 13 (\$3.601 for general government, \$0.754 for schools, Bay Area Rapid Transit District (note 6) and Bay Area Air Quality Management District and \$0.565 for City and County bond interest and redemption charges). Delinquencies for the year amounted to 3.1%.

(4) Budgetary Process Reconciled to Generally Accepted Accounting Principles

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The results of operations are presented in the accompanying budget-to-actual comparison statement (Exhibit 3) in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis "actual" and GAAP basis are as follows:

- (a) Encumbrances are recognized as the equivalent of expenditures in the budgetary financial statement while encumbered amounts are not recognized on the GAAP basis until recorded as actual expenditures.
- (b) Assets not available for appropriation (such as supplies inventory) are excluded from the Budget basis fund balance because such amounts have already been expended.
- (c) Non-annually budgeted funds (such as certain grant funds) are excluded from the Budget basis financial statement because a comparison of such budgetary amounts to annual revenues and expenditures is not meaningful.
- (d) Certain accruals (such as judgment claims) are excluded from the Budget basis financial statement because such amounts are budgeted on a cash basis.

The results of "actual" operations on a Budget basis are reconciled to the results of operations on a GAAP basis as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Excess of revenues and other sources over expenditures, encumbrances and other uses – Budget basis	\$62,661	(1,832)
Increase in current year's encumbrances	6,845	1,446
Expenditures which were encumbered in prior years	(4,477)	(175)
Non-annually budgeted funds, net	—	1,950
Accruals excluded from Budget basis	<u>(58)</u>	<u>—</u>
Excess of revenues and other sources over expenditures and other uses – GAAP basis	<u>\$64,971</u>	<u>1,389</u>

The fund balances on a Budget basis are reconciled to the fund balances on a GAAP basis as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Fund balance, June 30, 1981 – Budget basis	\$179,898	44,370
Encumbrances, June 30, 1981	10,513	3,137
Assets not available for appropriation	1,205	—
Non-annually budgeted funds	1,835	8,330
Accruals excluded from Budget basis, net	<u>(4,554)</u>	<u>—</u>
Fund balance, June 30, 1981 – GAAP basis	<u>\$188,897</u>	<u>\$55,837</u>

(5) Fixed Assets

General

A summary of changes in general fixed assets follows (in thousands):

	Balance June 30, 1980 (Restated – note 10)	Additions	Hospital Transfers (note 8)	Balance June 30, 1981
Land	\$ 48,566	1,404	(677)	49,293
Facilities and improvements	337,541	8,890	(56,893)	289,538
Machinery and equipment	36,101	6,390	(6,687)	35,804
Construction in progress	<u>61,920</u>	<u>46,652</u>	<u>—</u>	<u>108,572</u>
	<u>\$484,128</u>	<u>63,336</u>	<u>(64,257)</u>	<u>483,207</u>

Costs incurred to construct the Moscone Convention Center facility at June 30, 1981, included in construction in progress, amounted to approximately \$102,353,000. Financing for construction and operation of the Center was obtained through appropriation of a portion of the City and County's hotel tax and through the issuance of lease revenue bonds by the Redevelopment Agency of the City and County of San Francisco. The City and County is leasing the facility under a capital lease (note 6) and is responsible for operation of the facility which opened December 2, 1981. Title to the Center transfers to the City and County upon expiration of the lease. Cash funds related to the Center of approximately \$64,852,000 at June 30, 1981, which are restricted as to use by bond covenants, are held by a trustee not under the jurisdiction of the City and County. Such funds and the related annual expenditures are not included in the accompanying financial statements.

Costs of approximately \$45,000,000, incurred to construct the Louise M. Davies Symphony Hall facility, are not included in general fixed assets at June 30, 1981. The Hall was constructed on land leased to a private organization by the City and County. The organization raised financing for construction primarily from sources independent of the City and County. The City and County is responsible for operating the Hall, which opened in September, 1980. The facility will be donated to the City and County effective January 1, 1982, the date of expiration of the land lease.

Proprietary Funds

A summary of proprietary fund type fixed assets at June 30, 1981 follows (in thousands):

	Public Service Enterprise	Internal Service
Land	\$ 133,771	—
Facilities and improvements	1,447,266	920
Machinery and equipment	<u>139,205</u>	<u>7,221</u>
	1,720,242	8,141
Less accumulated depreciation	<u>529,461</u>	<u>5,680</u>
	1,190,781	2,461
Construction in progress	<u>467,989</u>	<u>—</u>
	<u>\$1,658,770</u>	<u>2,461</u>

(6) Long-Term Debt

The annual requirements to amortize all bonds, capital lease obligations and other long-term debt outstanding as of June 30, 1981 are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Public Service Enterprise</u>	<u>General Long-Term Debt</u>	<u>Total</u>
1982	\$ 70,004	17,081	87,085
1983	69,448	19,487	88,935
1984	66,107	22,669	88,776
1985	63,945	21,756	85,701
1986	60,535	20,348	80,883
1987-1991	265,564	83,396	348,960
1992-1996	226,341	68,521	294,862
Thereafter	<u>366,213</u>	<u>80,268</u>	<u>446,481</u>
	1,188,157	333,526	1,521,683
Less amounts representing interest	<u>550,776</u>	<u>132,815</u>	<u>683,591</u>
Liability at June 30, 1981	<u>\$ 637,381</u>	<u>200,711</u>	<u>838,092</u>

The following is a summary of changes in General Long-Term Debt for the year ended June 30, 1981 (in thousands):

	<u>Balance June 30, 1980 (Restated - note 10)</u>	<u>Additional Obligations</u>	<u>Current Maturities and Retirements</u>	<u>Balance June 30, 1981</u>
Estimated claims payable	\$ 35,001	1,445	-	36,446
Bonds payable	119,590	-	10,870	108,720
Capital lease obligations	91,354	-	135	91,219
Long-term loans	<u>901</u>	<u>-</u>	<u>129</u>	<u>772</u>
	<u>\$246,846</u>	<u>1,445</u>	<u>11,134</u>	<u>237,157</u>

Long-term liabilities at June 30, 1981 are comprised of the following components (in thousands):

	<u>General Long-Term Debt</u>		
<u>General Obligation Bonds:</u>	<u>Due Serially To</u>	<u>Remaining Interest Rates</u>	<u>Amount</u>
Schools	1995	4.0 to 6.5%	\$31,755
Hospital	1986	4.0 to 6.0%	10,190
Fire protection	1995	4.1 to 6.5%	10,760
Parks and playgrounds	1995	3.9 to 6.5%	5,530
Boulevards and roads	1999	3.9 to 6.0%	17,430
Other	1983	4.0 to 4.1%	210

<u>Non-Profit Corporations:</u>	<u>Due Serially To</u>	<u>Remaining Interest Rates</u>	<u>Amount</u>
San Francisco Stadium, Inc. (Candlestick Park)	2000	4.75 to 5.75%	20,760
San Francisco Social Services Corporation	2003	6.25 to 7.75%	10,285
San Francisco Civic Plaza Parking Corporation	1989	4.75%	1,800
<u>Capital Lease Obligations:</u>			
Redevelopment Agency:			
Moscone Convention Center	1997	6.1 to 7.25%	88,839
Hunters Point South School	1993	4.0 to 5.5%	2,380
<u>Other Long-Term Liabilities:</u>			
Loans — State of California:			
Marina development	2007	3.0 to 4.5%	772
Estimated claims payable	—	—	<u>36,446</u>
Total long-term liabilities — General Long-Term Debt			<u>\$237,157</u>

Public Service Enterprise

<u>Revenue and General Obligation Bonds:</u>	<u>Due Serially To</u>	<u>Remaining Interest Rates</u>	<u>Amount</u>
San Francisco International Airport:			
General obligation	1994	3.7 to 6.0%	\$ 43,905
Revenue	2012	5.5 to 8.25%	228,590
Port of San Francisco:			
General obligation:			
State of California	1999	1.0 to 5.5%	24,252
City of San Francisco	2005	4.5 to 6.75%	27,200
Revenue	2001	5.25 to 8.5%	17,830
Clean Water Program:			
General obligation	1999	3.0 to 6.0%	80,710
Revenue	1999	5.0 to 10.0%	101,845
Municipal Railway			
Revenue	1997	4.0 to 7.5%	33,140
Water Department/ Hetch Hetchy Project			
General obligation	1995	.25 to 6.5%	60,570
Non-Profit Corporations:			
City of San Francisco			
Market Corporation	1992	5.0 to 6.0%	739
Parking Corporations:			
Downtown	1990	4.0 to 5.0%	1,475
Uptown	2000	5.75 to 7.75%	7,942
Western Addition	2000	3.7 to 4.75%	2,891
Golden Gateway	1999	4.75 to 5.0%	4,284
Ellis-O'Farrell	1995	3.7%	1,225
Portsmouth Plaza	1989	5.25%	<u>783</u>
Total long-term liabilities — Public Service Enterprise			<u>\$637,381</u>

The primary collateral for the general obligation bonds is the ad valorem tax on property within the City and County (note 3). At June 30, 1981, the City and County had authorized but unissued general obligation bonds aggregating \$22,095,000.

The City and County is also responsible for collecting a portion of general obligation debt of other local governmental units which provide services within the City and County's boundaries, and which must be borne by properties in the City and County. The primary overlapping debt relates to the Bay Area Rapid Transit District (BART). City and County taxpayers are responsible for \$197,826,000 or approximately 30.85% of BART debt, maturing serially through 1999.

There are a number of limitations and restrictions contained in the various bond indentures. The City and County believes it is in compliance with all significant limitations and restrictions.

(7) Employees' Retirement System

The City and County has a retirement plan which is administered by the San Francisco City and County Employees' Retirement System. The plan covers substantially all City and County employees including certain Public Service Enterprise and School and Community College District employees, and provides death, disability and service retirement benefits. Benefits are based on average final compensation, plus limited required cost-of-living increases.

The retirement plan is financed primarily by (a) City and County contributions, (b) employee contributions and (c) income from investments, principally interest. Retirement expenditures recognized by the City and County are based on rates set by the Retirement Board of the Employees' Retirement System. Total retirement cost for the 1981 fiscal year included in the combined financial statements is approximately \$117,081,000, which includes amortization of past service cost over 20 years. The City and County makes annual contributions to the plan equal to the amounts accrued for retirement cost.

The latest actuarial valuation of the Employees' Retirement System was completed on March 26, 1980 based upon employee data and asset information as of June 30, 1978. The actuarial vested and non-vested liability as of June 30, 1978 is based on an investment return assumption of 6%. The method used in calculating accrued benefits assumes immediate termination of the plan and, therefore, immediate 100% vesting.

The actuarially computed present value of accrued benefits for all covered employees, both vested and non-vested as of June 30, 1978 was \$1,382,463,000. This figure does not give recognition to future salary increases and their effect on accrued benefits. Net assets at cost available for pension benefits at June 30, 1978 were \$876,740,324. The cost of investments at June 30, 1978 exceeded market value by approximately \$127,000,000. The cost of investments at June 30, 1981 exceeded market value by approximately \$183,000,000.

The information required by Statement of Financial Accounting Standards No. 36, disclosing both vested and non-vested accumulated plan benefits, is not available because the most recent actuarial information was calculated prior to the release of the Statement.

The Retirement Board has the responsibility and authority to establish contribution rates sufficient to maintain the system, which the City and County is obligated to meet. Preliminary results of a new actuarial study indicate that contributions for public safety employees must be substantially increased. The City and County and the Retirement Board are currently negotiating this increase to occur over a three year period beginning in fiscal year 1983. It is anticipated that contributions for 1983 will be increased by approximately \$20 million.

(8) Segment Information for Public Service Enterprises

The City and County maintains Public Service Enterprise Funds which provide water, sewage treatment, airport, public transportation, hospital, parking, and harbor services and facilities which are largely financed by user charges. Segment information for the year ended June 30, 1981 is presented on the following page (in thousands):

	San Francisco International Airport	Port of San Francisco	Water Department/ Hetch Hetchy Project	Municipal Railway	Clean Water Program	General Hospital Medical Center	Parking Garages/Other	Total
Operating revenues	\$ 80,434	21,682	93,904	46,343	42,624	59,485	10,117	354,589
Operating income (loss)	30,898	6,002	29,246	(86,724)	24,257	(17,353)	3,127	(10,547)
Operating contributions	—	—	—	35,098	—	—	—	35,098
Net operating transfers in (out)	—	—	(7,663)	34,135	(94)	33,146	(1,133)	58,391
Net income (loss)	36,040	4,916	27,666	(14,500)	31,203	15,598	2,341	103,264
Capital grants and other	1,935	1,080	5,065	16,606	67,313	—	—	91,999
Fixed assets:								
Balance, July 1, 1980, net	332,302	155,487	385,429	160,174	411,558	47,388	33,548	1,525,886
Additions, net of disposals	32,237	4,587	30,624	8,495	92,193	1,214	381	169,731
Depreciation expense, net	(10,565)	(3,180)	(8,717)	(8,720)	(2,759)	(2,726)	(180)	(36,847)
Balance, June 30, 1981, net	353,974	156,894	407,336	159,949	500,992	45,876	33,749	1,658,770
Cash deficit	—	—	—	16,045	—	—	—	16,045
Net working capital	31,667	4,184	48,421	124	165,410 (a)	21,951	7,563	279,320
Total assets	548,682	177,945	497,137	215,260	701,932	79,398	50,867	2,271,221
Long-term debt	272,495	69,282	60,570	33,140	182,555	—	19,339	637,381
Equity:								
Contributed capital	70,715	69,112	26,187	187,620	415,860	47,388	—	816,882
Retained earnings (deficit)	185,548	31,220	388,017	(32,647)	77,733	20,174	27,572	697,617
	\$256,263	100,332	414,204	154,973	493,593	67,562	27,572	1,514,499

(a) Includes restricted cash held for construction.

(a) San Francisco International Airport

Purchase commitments for construction, materials and services at June 30, 1981 are approximately \$36,310,000.

Beginning with fiscal year 1982, certain airport revenues will be available for transfer to the General Fund as described in note 11.

(b) Port of San Francisco

Prior to February 7, 1969 the Port of San Francisco was owned by the State of California. On February 7, 1969, the Port was transferred to the City and County of San Francisco under terms and conditions of legislation as ratified by the electorate of the City and County. Accordingly, the City and County assumed all debt, including State of California general obligation bonds, from the State at the date of transfer; this debt amounted to \$24,252,000 at June 30, 1981. The State retains the right to amend, modify or revoke the transfer provided that it assumes all related lawful obligations.

The Port is presently planning various development projects which may commit it to spend significant capital funds. In addition to the use of existing capital outlay funds, the Port may seek additional financing or refinancing to meet these commitments.

(c) Water Department/Hetch Hetchy Project

The segment data presented reflects the combined statements of the Water Department and Hetch Hetchy Project (Water/Hetch Hetchy), whose operations are interrelated. Significant transactions between these entities have been eliminated. The Hetch Hetchy Project is a system of reservoirs and hydroelectric generating stations and the related distribution systems; it provides the Water Department with its water and sells electric power to City and County departments and to public and private agencies.

The property tax levy of the City and County includes amounts to pay annual bond interest and redemption charges on general obligation bonds of Water/Hetch Hetchy, which are included in the Water/Hetch Hetchy financial statements. Water/Hetch Hetchy transfers a like amount to the General Fund, as described in note 3.

Income from the Hetch Hetchy Project is available for the general operations of the City and County. During the year ended June 30, 1981, \$8 million was transferred to the General Fund in addition to the amount described above.

The Hetch Hetchy Project has approved capital grants amounting to \$15,163,000 available to finance improvements to overhead power systems of the Municipal Railway.

(d) Municipal Railway

The segment data reflects the combined operations of the San Francisco Municipal Railway and the San Francisco Municipal Railway Improvement Corporation (SFMRIC). SFMRIC is a non-profit corporation organized for the purpose of acquiring, constructing, improving and financing improvements to the City and County's public transportation system. Significant transactions between these entities have been eliminated. Fund equity of the Municipal Railway has been reduced by \$2,482,000 due to various adjustments made as of the beginning of the year.

Power for overhead distribution lines used to operate certain Municipal Railway vehicles is provided by the Hetch Hetchy Project at no cost to the Railway. This amounted to \$2,295,000 for fiscal year 1981. As of June 30, 1981, the Municipal Railway had various approved capital grants amounting to \$29,038,000 available to finance various improvements to be undertaken by SFMRIC.

As of June 30, 1981, SFMRIC had commitments of approximately \$16,000,000 under outstanding contractual agreements for uncompleted projects. Of this amount, a substantial portion is expected to be received in Federal grants. Total approved project budgets aggregate \$123,600,000.

The City and County's policy is to fund expected operating deficits of the Municipal Railway on a cash basis.

(e) Clean Water Program

The Clean Water Public Service Enterprise Fund has been established pursuant to bond resolutions to account for the whole of the municipal sewage treatment and disposal system, including a major construction program currently underway.

In 1976, the electorate authorized the issuance of up to \$240,000,000 principal amount of revenue bonds to partially finance improvements to the municipal sewage treatment and disposal system. As of June 30, 1981, \$105,000,000 principal amount had been issued. A substantial part of the cost of the total construction program has been and is expected to be provided from capital grants of the Environmental Protection Agency of the United States and the California State Water Resources Control Board. As of June 30, 1981, the Clean Water Program had outstanding construction contract commitments of \$58,600,000.

The construction funds presently available are not sufficient to fund total construction cost of \$2.3 billion. To provide for possible shortfalls of funds, management has developed a Master Plan schedule that builds operating core systems on both sides of the City, which will be interconnected and enlarged in steps and stages to ensure functioning units during implementation of the program.

(f) General Hospital Medical Center

Effective July 1, 1980, the San Francisco General Hospital Medical Center was established as a Public Service Enterprise Fund by resolution of the Board of Supervisors. The hospital was included in the General Fund as of June 30, 1980. All assets and liabilities, except for general obligation bonds related to the hospital, were transferred from the General Fund to the separate enterprise fund. General obligation bonds aggregating \$10,190,000 remain in the General Long-Term Debt Account Group at June 30, 1981 (note 6). The City and County intends to retire these obligations from property tax revenues.

The City and County's policy is to fund cumulative operating deficits of the General Hospital Medical Center, if any, on a cash basis.

(g) Parking Garages/Other

The segment data reflects the operations of six parking garages operated by separate non-profit corporations organized by the City and County. Additionally, this segment includes the San Francisco Market Corporation, a non-profit corporation organized to acquire, construct, finance and operate a produce market.

Depreciation of fixed assets is recorded by only one of the parking garages.

(9) Commitments and Contingent Liabilities

Claims and Litigation

Numerous lawsuits are pending or threatened against the City and County, including total claims or damages amounting to approximately \$680,473,000 related to the governmental fund types. The Office of the City Attorney estimates the amount of liability, as determined under Statement of Financial Accounting Standards No. 5, to be approximately \$38,946,000. Claims in the governmental fund types approximating \$2,500,000 are estimated to be payable within the ensuing year, based upon a five-year average adjusted for large individual items, and are included as liabilities of the General Fund. The remainder is included in the General Long-Term Debt Account Group. The recorded liability is the City and County's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated.

The Municipal Railway estimates accident claims based on historical experience. Estimated accident claims payable amounted to approximately \$9,722,000 as of June 30, 1981.

The San Mateo County Superior Court has ruled that the 2% annual increase in assessed value permitted under Proposition 13 begins in 1978 (the year of passage) rather than in 1975 (the base year for valuation). The ruling, which could affect every California county, is now under appeal. Should such appeal fail, 1981-82 assessments would have to be reduced approximately 6.12%, except for newly constructed improvements and properties which have changed ownership since 1975. The City and County has appropriated \$11 million for this contingency in its 1981-82 budget. Additionally, claims could be made against the City and County for overpayment of taxes previously paid.

Grants and Subventions

Receipts from revenue sharing and other programs are subject to audit by representatives of the Federal and State governments to determine if the monies were expended in accordance with appropriate statutes, grants, terms and regulations. The City and County believes that no significant liabilities will result.

Insurance

For its general governmental activities, the City and County self-insures all general liability risks and substantially all its property risks except for limited excess coverage maintained on certain facilities. Payment of claims is provided for through annual appropriations which are based on claims payment experience.

Among the Public Service Enterprise Funds, external insurance coverage is maintained by the San Francisco International Airport, Port of San Francisco, Water Department/Hetch Hetchy Project and Municipal Railway. The Municipal Railway self-insures for accident claims up to \$2,000,000.

The City and County self-insures for workers' compensation which is accounted for in an internal service fund. The total amount estimated to be payable for claims incurred as of June 30, 1981 and the amount estimated to be receivable from the General Fund in the ensuing year has been accrued in the Workers' Compensation Fund. The resultant retained earnings deficit of \$7,265,000 is expected to be funded by the General Fund in fiscal year 1983 and thereafter (\$4,960,000) and by various Public Service Enterprise Funds.

Employee health care benefits are financed by employees and by the City and County through the Health Service System, a separate entity. The City and County's contribution, which amounted to approximately \$12,634,000 in 1981, is determined by Charter provision based on similar contributions made by the ten largest counties in California. The City and County's liability is limited to its annual contribution.

(10) Restatement of Fund Equity and Account Balances

Fund equity of certain fund types and account balances of the City and County have been restated at June 30, 1980 in order to determine such fund equity or account balances in accordance with generally accepted accounting principles as described in National Council on Governmental Accounting Statement No. 1, or to reflect a reclassification of funds between fund types. A summary of the resultant increases (decreases) to such fund equity and account balances follows (in thousands):

	General	Special Revenue	Debt Service	Internal Service	General Fixed Assets	General Long-Term Debt
(a) Uncollectible unsecured property taxes	\$ (5,215)	—	—	—	—	—
(b) Local tax revenues not susceptible to accrual	(3,807)	—	—	—	—	—
(c) Disputed unsecured property taxes	(17,543)	—	(501)	—	—	—
(d) Prior year's grant revenues	4,166	332	—	—	—	—
(e) Liability for workers' compensation	2,289	—	—	(8,055)	—	—
(f) Estimated claims payable	25,300	—	—	—	—	25,300
(g) Prior years' income	—	—	—	3,704	—	—
(h) Accrued salary payable, under dispute	8,336	1,364	—	—	—	9,700
(i) Unrecorded hospital accruals	(3,619)	—	—	—	—	—
(j) Capital leases not previously recorded	—	—	—	—	45,987	6,629
(k) Infrastructure assets	—	—	—	—	(343,695)	—
(l) Net change due to historical cost estimates	—	—	—	3,282	(50,784)	—
(m) Beginning fund balances reclassified between fund types	2,096	(2,096)	—	—	—	—
Miscellaneous	(831)	480	—	(56)	—	257
Net adjustment	11,172	80	(501)	(1,125)	(348,492)	41,886
Fund equity/account balances, June 30, 1980	115,722	54,195	3,351	1,084	832,620	204,960
Restated fund equity/account balances, June 30, 1980	<u>\$126,894</u>	<u>54,275</u>	<u>2,850</u>	<u>(41)</u>	<u>484,128</u>	<u>246,846</u>

- (a) Uncollectible unsecured property taxes — The City and County has determined that the amount of net unsecured property taxes receivable in previously issued financial statements was in excess of that which could reasonably have been expected to be collected.
- (b) Local tax revenues not susceptible to accrual — Certain local tax revenues had been recognized before they were available to pay liabilities of the current period.
- (c) Disputed unsecured property taxes — Certain unsecured property taxes collected in 1979 were disputed as not being permitted under Proposition 13. Revenue recognition of the entire amount has been deferred as of June 30, 1980.
- (d) Prior year's grant revenues — Prior year's grant revenues had not been properly matched against related expenditures.
- (e) Liability for workers' compensation — The fund balance of the General Fund has been increased by the estimated non-current amount of outstanding workers' compensation claims at June 30, 1980. The liability for workers' compensation included in the Internal Service Fund has been increased to the amount estimated to be payable at June 30, 1980 based on a comprehensive analysis of claims, with a corresponding reduction in retained earnings.

- (f) Estimated claims payable — The liability and fund balance at June 30, 1980 have been restated to reflect the amount which reasonably could have been estimated at that date to be payable within the following year, based on payment history. Additional amounts have been recorded in the General Long-Term Debt Account Group.
- (g) Prior years' income — In prior years, inter-departmental charges or services in excess of actual expenses, as determined at the end of the year, had been deferred. Under accrual accounting, such revenues should be recorded and beginning retained earnings has been increased accordingly.
- (h) Accrued salary payable, under dispute — An employee union has filed suit against the City and County claiming retroactive pay for the first five months of 1978-79. As it was not probable at June 30, 1980 that any amounts would be paid within the following year, the accrual has been restored to the fund balances of the General and Special Revenue Funds and shown as a liability in the General Long-Term Debt Account Group.
- (i) Unrecorded hospital accruals — Certain net accruals related to 1979-80 hospital operations were not recorded at June 30, 1980.
- (j) Capital leases not previously recorded — Certain projects financed through City and County lease payments on long-term capital leases were not reflected in the financial statements.
- (k) Infrastructure assets — The City and County re-evaluated its policies with regard to recording its general fixed assets and determined that historical cost of such items as roads, curbs and gutters, sidewalks, lighting systems and other infrastructure-type assets, should not be recorded in the General Fixed Asset Account Group as such assets normally are immovable and of value only to the City and County.
- (l) Net change due to historical cost estimates — The City and County engaged qualified appraisers to estimate the historical cost of major buildings and improvements, and to inventory and to estimate the historical cost of machinery and equipment in the major departments and in the Internal Service Funds (including accumulated depreciation). The City and County also reviewed and adjusted historical costs of major land parcels.
- (m) Beginning fund balances reclassified between fund types — The City and County has determined that its Federal Revenue Sharing, Traffic Fine, and Welfare Assistance and Administration Funds are more appropriately reflected in the General Fund than in the Special Revenue Funds.

The effect of several of these restatement items on the revenues, expenditures and expenses of specific prior years cannot readily be determined. In addition, the effect of the establishment of the hospital enterprise fund as of July 1, 1980 (note 8) on General Fund revenues and expenditures as reported in specific prior years cannot readily be determined. Consequently, it was not practicable to determine what adjustments would be necessary in the financial statements of the preceding year to restate revenues, expenditures and expenses, or changes in financial position for the proprietary fund type, in conformity with the accounting principles used in the current year. Any comparison between the two years should be evaluated accordingly.

(11) Subsequent Event — Airport Funds Available to General Fund

Proposition A was approved by the voters of the City and County on November 3, 1981. This proposition allows the City and County to sell revenue bonds for airport facilities without obtaining voter approval, and settles a \$50 million lawsuit brought against the City and County by various airlines utilizing San Francisco International Airport relating to landing fees and the utilization of the airport funds.

Under terms of the settlement agreement, the City and County General Fund will be entitled to collect from San Francisco International Airport a minimum of \$6 million annually for four years beginning with the 1982 fiscal year, and a minimum of \$5 million for the ensuing 26 years, for indirect administrative expenses and management fees. Such amounts will be available for general government expenditures.

